

DOCKET SECTION

BEFORE THE

**POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001**

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POSTAL RATE AND FEE CHANGES, 1997

**DOUGLAS F. CARLSON
RESPONSES TO INTERROGATORIES
OF THE UNITED STATES POSTAL SERVICE
(USPS/DFC-T1-30-37)**

February 6, 1998

I, Douglas F. Carlson, hereby provide my responses to the interrogatories of the United States Postal Service (USPS/DFC-T1-30-37). Interrogatories USPS/DFC-T1-30-37 were filed on January 28, 1998.

Each interrogatory is stated verbatim and is followed by my response.

Respectfully submitted,



Dated: February 6, 1998

DOUGLAS F. CARLSON

**DOUGLAS F. CARLSON RESPONSES TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/DFC-T1-30. Please reconcile your testimony at page 5, lines 1 to 2, where you talk about holding the stamped card rate at 20 cents for many years, with your testimony at page 8, lines 25 to 26, where you talk about laying the groundwork for a lower rate for stamped cards in future cases.

RESPONSE:

If the Commission recommends and the Postal Service implements a 20-cent rate for stamped cards in this case, the rate for stamped cards likely will be held lower than the rate for private post cards in future cases as well. Since the processing costs of stamped cards are significantly less than 20 cents, I believe that the rate for stamped cards should be held at 20 cents for many years until the processing costs rise to a level where the cost coverage begins to decline to an unacceptably low level. In contrast, the rate for private post cards presumably will continue to rise in each subsequent case as costs rise. Thus, my proposed rate will lay the groundwork for a rate for stamped cards that will be lower than the rate for private post cards not only in this case but in future cases as well. I believe that the gap between the two rates should widen in future cases.

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USPS/DFC-T1-31. Please refer to your testimony at page 8, lines 12 to 24, and your response to interrogatory USPS/DFC-T1-20. Is the Postal Service's proposal also "indefensible, unfair, and inequitable" for the subset of private post cards that share the cost characteristics of stamped cards (e.g., those private cards that meet the automation-compatibility requirements and background-reflectance requirements discussed on page 2 of your testimony)? Please explain your response.

RESPONSE:

Private post cards cost more to process than stamped cards. However, the Postal Service proposes to charge 21 cents for private post cards and 23 cents for stamped cards. I am unsure why a proposal to charge a lower rate for automation-compatible private cards than for stamped cards would be defensible, fair, or equitable, given that private post cards generally cost more to process than stamped cards or, in this hypothetical question, at minimum *share* cost characteristics with stamped cards.

Note that rate categories sometimes require costs to be averaged. For example, the clean, metered, typewritten, one-ounce letters that I mail surely cost less to process than stamped, handwritten Christmas cards in bright red envelopes that create readability problems for bar codes and require use of the RBCS system. Nonetheless, the proposed rate for both letters is 33 cents. As another example, consider two letters. The first letter is typewritten and stamped and is mailed from Philadelphia to Baltimore. The proposed rate for this letter is 33 cents. The second letter is pre-bar-coded Prepaid Reply Mail. This letter is mailed from Philadelphia to Alaska. The proposed rate for this PRM letter is 30 cents. The first letter probably incurs lower costs than the PRM letter destined to Alaska. However, the rate structure is defensible because, on average, PRM letters incur lower processing costs than single-piece letters. In addition, a rate structure that charged different rates for every letter depending on the automation compatibility and distance of travel of each letter likely would be unwieldy.

I recognize that some automation-compatible private post cards may incur costs as low as the costs for stamped cards. However, as the cost data suggest, most private post cards incur higher costs than stamped cards. The current rate structure makes no attempt to recognize this cost differential by providing a discount to stamped cards. And now, in this case, the Postal Service proposes to charge a *higher* rate and fee for stamped cards. I propose to improve the fairness and equity of the rate structure by creating a special rate category for stamped cards that reflects the lower cost characteristics of stamped cards compared to private post cards. Although some private post cards may incur costs as low as stamped cards, my proposal nevertheless will improve the *overall* fairness, equity, and logic of the rate categories.

**DOUGLAS F. CARLSON RESPONSES TO
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USPS/DFC-T1-32. Please refer to your testimony at page 10, lines 7 to 9. Please confirm that your conclusion that "net revenue for a stamped card will be over fives [sic] times higher than the net revenue for a private post card" assumes a stamped card and a private post card with average costs as shown in the FY 1996 CRA. If you do not confirm, please explain why not.

RESPONSE:

Confirmed.

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USPS/DFC-T1-33. Please refer to your response to USPS/DFC-T1-13, where you claim:

Witness Plunkett filed this interrogatory response with a declaration under penalty of perjury that his answer was 'true and correct, to the best of [his] knowledge, information, and belief,' so these three characteristics are the only ones that the Postal Service should be citing in this case as distinguishing return-receipt service from my hypothetical alternative.

Please confirm that in his interrogatory response witness Plunkett also indicated that customers might view return receipt service as more valuable than the hypothetical alternative because return receipt service imposes fewer demands on the recipient of the mail piece. If you do not confirm, please explain why not.

RESPONSE:

Please refer to the revised response to USPS/DFC-T1-13, dated February 6, 1998.

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USPS/DFC-T1-34. Please refer to your response to interrogatory USPS/DFC-T1-19.

a. Please confirm that your response refers to part a of witness Alexandrovich's response, which states that "CRA unit mail processing costs for postal cards have historically been lower than those of private postcards, on average." If you do not confirm, please explain why not.

b. Please confirm that parts b and c of witness Alexandrovich's response explained how these CRA costs for postal cards might be understated. If you do not confirm, please explain why not.

RESPONSE:

a. My citation in USPS/DFC-T1-19(c) to DFC/USPS-T5-16 refers to DFC/USPS-T5-16(a). The question to witness Patelunas read, in pertinent part, "Do you believe that stamped cards are less expensive to process than private post cards?" I also asked witness Alexandrovich to explain any answer that was other than an unqualified yes. He responded, "CRA unit mail processing costs for postal cards have historically been lower than those of private post cards, on average."

b. I can confirm that witness Alexandrovich's answer to DFC/USPS-T5-16(b) was in response to the question I posed in DFC/USPS-T5-16(b) and that his answer to DFC/USPS-T5-16(c) was in response to the question I posed in DFC/USPS-T5-16(c). I cannot personally vouch for the accuracy of these responses.

These responses should be read in conjunction with witness Alexandrovich's response to DFC/USPS-T5-12 and my response to USPS/DFC-T1-19(c). In DFC/USPS-T5-12, witness Alexandrovich confirmed that "no studies or other analyses have concluded that the reliability of the cost data for postal cards" contained in Attachment I to DFC/USPS-T5-2(b) "has been affected in any significant way by the misidentification of stamped cards and other cards by IOCS data collectors."

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USPS/DFC-T1-35. Please refer to your response to interrogatory USPS/DFC-T1-22. Is your proposal preferable to an alternative proposal in which all automation-compatible cards with handwritten addresses (private or stamped) would be eligible for the rate you propose for stamped cards? If so, please present all reasons why.

RESPONSE:

I am not aware of an "alternative proposal" that any party has advanced in this case that fits the description of the "alternative proposal" mentioned in this interrogatory. I have provided detailed theoretical and statutory justifications for my proposal, and I would presume that another party's "alternative proposal" would be accompanied by a similarly detailed explanation of the theoretical and statutory justifications for the proposal. I do not believe that I could meaningfully compare my proposal to another proposal unless I were first able to review and analyze the theoretical and statutory justifications of the "alternative proposal."

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USPS/DFC-T1-36. Please refer to your response to interrogatory USPS/DFC-T1-23.

a. Please confirm that lowering Postal Service costs and increasing net revenue depend on the cost characteristics of the cards that switch to stamped cards, rather than the average costs you cite. If you do not confirm, please explain why not.

b. Please confirm that costs will not be lowered, nor net revenue increased, when a private card with the same cost characteristics as stamped cards switches to a stamped card. If you do not confirm, please explain why not.

c. Please confirm that under your proposal net revenue would be decreased when a private card with the same cost characteristics as stamped cards switches to a stamped card with a lower rate. If you do not confirm, please explain why not.

RESPONSE:

a. Strictly speaking, the incremental effect on costs and net revenue when a customer uses a single stamped card instead of a single private post card will depend on the cost characteristics of each card. In the aggregate, however, some high-cost private post cards may shift to stamped cards, and some low-cost private post cards may shift to stamped cards. Thus, the average costs of private post cards and stamped cards may, in fact, be reliable figures for measuring the overall effect on costs and net revenue.

b. Confirmed.

c. Confirmed.

**DOUGLAS F. CARLSON RESPONSES TO
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USPS/DFC-T1-37. Please refer to your response to interrogatory USPS/DFC-T1-28. Please confirm that Express Mail and private expedited services provide additional benefits (such as expedited delivery), in comparison to First-Class Mail with return receipt service, that might offset the higher costs for some customers. If you do not confirm, please explain why not.

RESPONSE:

Not confirmed. I am not sure I understand how additional benefits would “offset the higher costs for some customers,” as all customers would be required to pay the higher costs regardless of any benefits that they might receive. I can confirm that Express Mail and private expedited-delivery services may provide faster delivery than First-Class Mail. However, for a customer who wishes to obtain a return receipt and who does not require expedited delivery, I do not know how an expedited service could be considered a cost-effective alternative to return-receipt service. The mere fact that the expedited service would provide faster delivery should not erase the burden imposed on a customer for paying for expedited service that he did not need.

DECLARATION

I, Douglas F. Carlson, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Dated: February 6, 1998



DOUGLAS F. CARLSON

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon the required participants of record in accordance with section 12 of the *Rules of Practice* and section 3(B) of the *Special Rules of Practice*.



DOUGLAS F. CARLSON

February 6, 1998
Emeryville, California